

**FINANCIAL MANAGEMENT:
Review of Assertions Included in the
United States Secret Service's Fiscal Year 2000
Annual Report of Drug Control Funds**

OIG-01-057

March 23, 2001



Office of Inspector General

The Department of the Treasury

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United States Secret Service's Updated Annual Reporting of Actual FY 2000 Drug Control Funds

Abbreviations

OIG	Office of Inspector General
ONDCP	Office of National Drug Control Policy
Secret Service	United States Secret Service



Report of the Office of Inspector General

*The Department of the Treasury
Office of Inspector General*

March 23, 2001

Brian L. Stafford
Director
United States Secret Service

We have reviewed the assertions in Section V of the accompanying United States Secret Service's (Secret Service) Updated Annual Reporting of Actual Fiscal Year (FY) 2000 Drug Control Funds (Submission).

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assertions in Section V of the accompanying Submission. Accordingly, we do not express such an opinion.

The Submission, including the assertions made, was prepared pursuant to 21 U.S.C. §1704(d) and Office of National Drug Control Policy (ONDCP) Circular: *Annual Accounting of Drug Control Funds* (Circular), dated December 17, 1999, and is the responsibility of Secret Service's management.

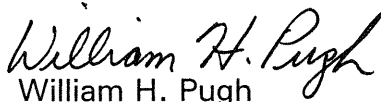
Secret Service's drug methodology entailed the calculation of the percentage of time spent on drug-related activities by each of its functional areas. These percentages were determined by dividing the drug related full time equivalent (FTE) by the total FTE for the functional area. Although Secret Service prepared a schedule that showed the calculation of these percentages, the documentation to support the FTEs used on this schedule could not be located. In addition, Secret Service has not reexamined the reasonableness and accuracy of these percentages since they were initially established in 1990. This matter was first reported in our FY 1999 review.

Based on our review, with the exception of the matters described in the preceding paragraph, nothing came to our attention that caused us to believe that the assertions included in Section V of the accompanying Submission are not presented in all material respects based on the requirements set forth in the Circular.

This report is intended solely for the information and use of the management of Secret Service, the Department of the Treasury, the ONDCP, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

* * * * *

Our report has been reviewed by your staff. Based on mutual agreement, we are issuing this report as final. Should you or your staff have any questions, you may contact me at (202) 927-5430 or a member of your staff may contact Mike Fitzgerald, Director, Financial Audits, at (202) 927-5789. We appreciate the cooperation and the courtesies extended to our staff.



William H. Pugh

Deputy Assistant Inspector General for Financial Management and
Information Technology Audits

January 26, 2001

Financial Audits Division

Michael Fitzgerald, Director
Marie Maguire, Audit Manager
Kimberly Fleming, Lead Auditor

The Department of the Treasury

Office of Accounting and Internal Control
Office of Budget

United States Secret Service

Director
Assistant Director, Administration / Chief Financial Officer
Director, Financial Management Division
Director, Office of Inspection
Budget Officer
Deputy Budget Officer

Office of Management and Budget

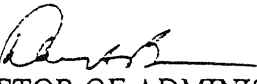
OIG Budget Examiner



DEPARTMENT OF THE TREASURY
UNITED STATES SECRET SERVICE

January 30, 2001

MEMORANDUM FOR JAMES LINGEBACH
ACTING DEPUTY CHIEF FINANCIAL OFFICER

FROM: DANA A. BROWN 
ASSISTANT DIRECTOR OF ADMINISTRATION
AND CHIEF FINANCIAL OFFICER

SUBJECT: UPDATED ANNUAL REPORTING OF ACTUAL FY 2000 DRUG
CONTROL FUNDS

For your review, attached is a revised FY 2000 Detailed Accounting Submission for National Drug Control Program activities. When the previous accounting was submitted to you on November 20, 2000 actual obligations for FY 2000 were not available, and as a result the previous report was based on the FY 2000 budget. This updated accounting is now based on FY 2000 actual obligations and replaces the previous version.

If you have any questions, or require any additional information please call Melanie Eackles on 406-5791.

Attachment

cc: Director, Office of Finance and Administration
Office of Enforcement
Departmental Budget Officer

UNITED STATES SECRET SERVICE

I. RESOURCE SUMMARY

(Budget Authority in Millions)

	FY 2000 <u>Net Obligations</u>
Drug Resources by Goal:	
Goal 2	\$79.747
Goal 3	<u>9.617</u>
Total	\$89.364

Drug Resources by Function:

Investigative Operations	\$77.404
Support Operations	6.134
Crime Control Act	2.343
Protective Operations	<u>3.483</u>
Total	\$89.364

Drug Resources by Decision Unit:

Investigative Operations	\$77.404
Support Operations	6.134
Crime Control Act	2.343
Protective Operations	<u>3.483</u>
Total	\$89.364

Drug Resources Personnel Summary

FTE:

Direct	719.380
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Information:

Salaries & Expenses	\$722.560
Drug Percentage	11.963%
Violent Crime Reduction Trust Fund	\$6.007
Drug Percentage	39.000%

II. METHODOLOGY

It is estimated that 39% of the workload of the Service's Investigative Operations is drug-related. This estimate is based upon an analysis of base staffhours expended. It is also

likewise estimated that 7% and 1% of the workload of the Protective and Support Operation activities respectively is drug-related.

III. PROGRAM SUMMARY

The Secret Service drug-related investigative activities support goal 2 of the National Drug Control Strategy. The Service's employee and applicant drug testing, protectee drug-related speeches, and protection for protectees involved in other drug enforcement related activities support goal 3 of the National Drug Control Strategy.

The mission of the Secret Service includes the authority and responsibility to: Protect the President, the Vice President, the President-elect, the Vice President-elect, and members of their immediate families; major Presidential and Vice Presidential candidates; former Presidents, their spouses and minor children; and visiting heads of foreign states/governments.

Provide security for the White House Complex and other Presidential offices, for the official residence of the Vice President, and for foreign diplomatic missions in the Washington, DC metropolitan area.

Detect and arrest any person committing an offense against the laws relating to currency, coins, obligations, and securities of the United States or foreign governments.

Detect and arrest those persons violating laws pertaining to electronic funds transfer frauds, credit card and debit card frauds, fraud involving federally insured financial institutions, false identification documents or devices, and computer access fraud.

Resources identified are based upon a methodology which incorporates pay, benefits and support costs of FTE devoted to drug enforcement activities. These include criminal investigations, federal/state/local task force involvement, employee and applicant drug testing, protectee drug-related speeches, and protection for protectees involved in other drug enforcement related activities.

IV. PROGRAM ACCOMPLISHMENTS

U.S. Secret Service investigations find a nexus between counterfeiting of U.S. currency and illegal drug distribution. Secret Service offices worldwide pursue investigations targeting distributors of counterfeit currency that also result in additional criminal charges for heroin, cocaine and marijuana distribution.

In addition, Secret Service investigators have encountered "mules" who have attempted to simultaneously smuggle both counterfeit U.S. currency and narcotics into the United States. This type of activity confirms that international, organized criminal groups are operating multiple schemes within their criminal enterprise and are using the same courier network for both counterfeit and narcotics trafficking. Further investigation has determined that on the return leg of their journey, these same "mules" gather the proceeds from the counterfeit and narcotics transactions in the United States and return them to the originating criminal

groups.

Within the investigative jurisdiction of the Secret Service, the most prevalent groups recognized at this time through recent trends would be the Nigerians associated with a variety of financial fraud schemes, to include advanced fee fraud, and the Asians associated with skimming. Due to the fact that a significant amount of the proceeds gained from this fraudulent activity are being applied to other illicit activities, i.e. drugs and weapons smuggling, it is anticipated that the networks supporting these various fraud schemes will increase in financial strength.

NIGERIAN Organized Criminal Groups

Since the early 1980's, the U.S. Secret Service has seen an increase in the number of financial crimes being committed by organized Nigerian criminal groups, which have a monetary effect on financial institutions and victims in the United States. These criminal groups have instituted sophisticated fraud schemes in the area of bank fraud, false identification, insurance fraud and credit card fraud. However, the most prevalent and successful type of fraud perpetrated by Nigerian groups today is advance fee fraud. U.S. Secret Service Nigerian Organized Crime Task Forces currently operate in ten cities across the U.S. and these advance fee fraud scams remain a priority investigation. These U.S. Secret Service Task Forces are currently evolving into Inter-Agency Nigerian Organized Crime Task Forces pursuant to the Attorney General's mandate on Nigerian Criminal Activity. In addition to the U.S. Task Forces, the U.S. Secret Service established a Task Force in Lagos, Nigeria in January of 1999, which works operationally with the Nigerian National Police Special Frauds Unit and Interpol authorities. As a result of these concentrated task force efforts, the Secret Service has recognized a continued growing trend among the Nigerian organized groups to use the illicit proceeds obtained from fraud schemes, such as advanced fee fraud, to further finance other criminal operations, such as narcotics trafficking, or to facilitate anonymity through the use of fictitious identification.

ASIAN Organized Criminal Groups

Asian-backed financial crime is a growing concern on many different levels. Through ongoing investigations, the Secret Service continues to identify the relationship between Asian organized crime groups abroad to cells throughout the United States. These cells establish a lucrative and compartmentalized enterprise focusing on credit card fraud, counterfeit currency, counterfeit financial instruments, fictitious instruments, cellular telephone fraud and computer fraud. The proceeds from these frauds are then diverted back to the Asian organized criminal groups for the purpose of drug trafficking and other illicit activities.

One of the main focal points regarding Asian organized crime is the emergence of skimming. Skimming, the replication of track data on a credit card that allows valid authorization to occur, can occur anywhere and is generally compromised at either the merchant location, as it passes from one organization to another during authorization, or when it is stored. This information is then used to counterfeit credit cards.

Evolving Technology with Organized Criminal Groups

The United States Secret Service has seen the emergence of several international organized groups systematically attacking the financial systems through financial institution fraud, credit card fraud and other related fraudulent activity. The growth and evolution of the Internet has provided numerous commercial and financial opportunities to criminal groups, to include the Nigerians and Asians, specifically in the areas of electronic commerce. The U.S. Secret Service views these growing electronic crime trends as a preview to most organized criminal activity in the future. One example of evolving technology is the "smart card."

The advent of the integrated circuit card or smart card presents new challenges to law enforcement on several fronts. The most prevalent issue addressed thus far regarding organized criminal activity and smart cards has been the issue of money laundering. Money laundering with smart cards is a concern to law enforcement due to the ability to make anonymous peer to peer or card to card transfers of monetary value. The ability to move money across borders via chips containing value is also a concern. With smart cards, an individual has the ability to move hundreds of thousands of dollars, or more, across borders with a device that is extremely concealable. It is conceivable to visualize the concept of organized criminal groups taking advantage of such a payment system by laundering large sums of money in or out of the United States, or across international borders, via a smart card. In addition, other personal property or illegal information could be easily transported, transferred or sold via a smart card. Once the border is crossed with this smart card, the money could be transferred to other cards thus creating a money-laundering situation that is virtually paperless.

V. ASSERTIONS

The prior year obligations are actual and the Service asserts that the methodology it uses to calculate its obligations of prior year budgetary resources is reasonable.

It also asserts that the methodology disclosed was the actual methodology used to generate the table required by Section 5a of ONDCP Circular: Annual Accounting of Drug Control Funds.

Finally, the Service asserts that the data presented are associated with obligations against a financial plan that, if revised during the fiscal year, properly reflects those changes, including ONDCP's approval of reprogrammings or transfers affecting drug-related resources in excess of \$5 million.